

The Panoche Energy Center (PEC) is a simple-cycle power generation project that has been designed and developed to conform to the requirements of the Pacific Gas and Electric Company (PG&E). The goals and objectives of this project are simple: to meet the contractual requirements of PG&E and satisfy the guarantees and requirements of equipment vendors. The following discussion gives the background pertinent to the contract with PG&E for the sale of power from the PEC. The PEC goals and objectives for this project are to meet the contractual commitments of this agreement and the various vendor requirements necessary for vendor guarantees.

2.1 PG&E REQUEST FOR OFFERS

The California Public Utilities Commission (CPUC) approved the PG&E long-term resource plan on December 20, 2004. In Decision 12-04-048 the CPUC authorized PG&E to “plan for and procure the resources necessary to provide reliable service to their customer loads for the planning period 2005 through 2014.” (Finding 1) In this proceeding, PG&E submitted their long-term resource needs and the increments of generation required to meet these load projections. PG&E indicated that most of the required generation would be acquired to satisfy peaking and shoulder loads, and would be dispatchable. In finding 19, the CPUC stated, “We find that PG&E’s LTPP plan is reasonable and we approve PG&E’s strategy of adding 1,200 MW of capacity and new peaking generation in 2008 and an additional 1,000 MW of new peaking and dispatchable generation in 2010 through RFO.” (Finding 19) Thus, PG&E was authorized and encouraged to seek new peaking, dispatchable generation through a bidding process to satisfy system loads at the end of this decade.

In response to this decision, PG&E re-issued its “2004 Long Term RFO – Power Purchase” on March 18, 2005. PG&E also indicated that, in accordance with the CPUC decision, they would utilize an “Independent Evaluator” to oversee the request for offers (RFO) process. PG&E notified prospective bidders that their bids would be evaluated utilizing a number of factors, including market valuation, portfolio fit, transmission impact, environmental characteristics, and conformance with PG&E’s non-price terms and conditions. Finally, the projects were to be in the area designated as NP-15.

2.2 RESPONSE TO RFO

In response to the PG&E RFO, PEC investigated potential sites at or near the Los Banos, Gates, Midway, and Gregg substations. Investigation included exploration of existing transmission path loads, flows, constraints, and growth potential. The only physical site near Los Banos would have required a lease of a parcel of land from PG&E, which PG&E determined was not available. Gates and Midway had no locational value. Gregg Substation experiences severe voltage swings due to pumping at Helms, and the land surrounding the Gregg Substation has been designated for residential and commercial projects. The Panoche site was chosen because of its superior locational value to the transmission system with the

ability to accommodate significant new generation without incurring substantial upgrade costs, and because there are existing generation plants adjacent to the site. Panoche affords PG&E the opportunity to dispatch output into the Path 15 corridor as well as eastward to rapidly growing load centers along the Highway 99 corridor. In addition, the back bone gas transmission lines are adjacent to the Panoche Substation and a parcel of land of sufficient size was available.

2.3 PG&E CONTRACT

PEC believes that a relatively large number of offers were submitted to PG&E in response to its RFO on April 27, 2004. PG&E evaluated the offers and created a short list of potential projects. Following the submittal of additional information to PG&E the list of projects was further shortened. Finally, in January 2006 PG&E informed PEC, and other projects, that its project had been accepted on a final list and that negotiations over contract terms and conditions would commence. Rigorous negotiation ensued over contract terms that culminated in a contract signed in March 2006 for generation services.

Salient contract provisions include:

- Contract term of 20 years.
- The PEC would be constructed on the parcel of land adjacent to the PG&E Panoche Substation on Panoche Road, Fresno County, California.
- The PEC would have four General Electric LMS100 combustion turbine machines. These turbines are able to ramp from 50 percent to 100 percent load in a fairly short time and they maintain an attractive heat rate over all operating load levels.
- Each of these combustion turbines is to provide approximately 100 MW of capacity in summer peak conditions. This capacity level can only be obtained with water injection.
- A turbine efficiency level of 9,402 Btu/kWh (British thermal units per kilowatt hour) is to be produced at 100 percent rated capacity, summer peak conditions.
- PG&E has the ability to dispatch each of the units as system conditions require.
- The entire four-turbine project is to be on-line and available for PG&E to dispatch into the grid on or before August 1, 2009.